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Merger Frenzy: Supplier Fallout Begins to Shake the Industry

(Editor's note: As NPN went to press, the Senate bill to ban mergers for six months was amended to exclude mergers already consummated. Pending likely FTC approval that would mean the Socal/Gulf and Mobil/Superior deals would stand. Congress' vote on merger legislation could come as early as this month.)

The third wave of what has been a dramatic restructuring and regrouping of the entire oil industry since the 1970s seemed to be at hand last month as the 13th and eighth largest integrated companies became felled merger targets.

An outcry from Washington following the Socal/Gulf agreement, however, could cool some of the merger fever. [See story on page 12.] There was talk that Congress might pass a temporary moratorium on oil company acquisitions or take similar action. Jobber groups were urging the federal government to step in, and Sen. Bennett Johnston (D-La.), usually an ally on oil industry issues, agreed something had to be done quickly to "stave off this hemorrhage of mergers."

The industry first was stunned in February when Texaco, the third largest company in total assets, struck quickly to acquire Getty Oil, ranked 13th, for approximately $10.1-billion. At the time, this was the largest corporate merger in U.S. history [NPN—Feb. '83, p22].

Not for long. Almost before the ink had dried on this deal, Standard Oil of California (ranked fifth) bid over $13.2-billion for Gulf Oil (ranked eighth). Gulf's board of directors quickly voted on March 5 to accept the Socal offer.

And again. One week later, Mobil swept up the nation's No. 1 independent producer, Superior Oil for $5.7-billion.

As shocking and unexpected as these merger deals were, experts believe they could be just the beginning of an industry epidemic. Already, there is speculation as to which companies will be next.

Many marketers fear if mergers continue, the impact downstream could be devastating. They are concerned that the oil industry soon could become too concentrated, reducing jobber supply options.

"I don't know what's going on and I'm scared," a small Gulf jobber in the Southwest admitted. "Whatever happens, it looks like I'll be left stranded."

Some supplier executives have been saying that their segment was due for some culling out, just as jobbers and dealers have undergone their shakeouts. These sources say the industry simply has too many companies and distributors fighting over a shrinking market.

By Marvin Reid
With Staff Reports

Gulf's Lee: Company's sellout sped from impossible to conceivable to inescapable.

Indeed, Getty and Gulf aren't the first merger victims so far in the 1980s. Getty joins other such second-tier victims since 1981 as Conoco, Marathon and Cities Service. Several smaller companies (including Apco, Champlin, Delta and Vickers) have changed hands or discontinued some marketing operations since 1978. Several other small to medium-size refiner companies are known to be struggling.

But Gulf, which grew out of the Spindletop gusher of east Texas in 1901, is the first of the so-called "Seven Sisters" to become a probable victim, and this causes marketers to expect anything now.

"A new era is upon us," says Nelson Rusche, a large Gulf jobber in Houston. "A lot of today's oil companies probably won't exist three to five years from now."

Financial analysts agree. They say the quest for more crude oil reserves is behind the current merger activity, with the bigger companies sizing up smaller ones, and Wall Street becoming the most attractive place to explore for oil. "It's like a square dance (out there) with everybody lining up on different sides of the floor," says a New York analyst.

Unless the government stops the music, here is how the big new partners reshape the rankings by 1983 assets:

Exxon—$62.3-billion
Socal/Gulf—$45-billion
Mobil/Superior—$41.4-billion
Texaco/Getty—$37-billion

"You've got to start wondering if we won't wind up like the auto industry, with just a few companies controlling everything," says Jack Malone, a Memphis marketer.

"Any medium-size refiner with crude reserves is nervous now," says a Midwest independent refiner-marketer.

The Socal/Gulf Deal

Approximately 1,715 Gulf-branded jobbers and a large marketing department that was already being trimmed back watched unbelieving in late February and early March as this giant among giants was forced to accept a "friendly" takeover.

T. Boone Pickens Jr., chairman of relatively tiny Mesa Petroleum Co. of Amarillo, Texas, touched off a battle for control of Gulf last fall. In the beginning, as Pickens and a group of investors he lined up increased their Gulf holdings, it seemed impossible that he could either gain control of the company or force it into a merger.

But after buying up 21.7-million shares and making a tender offer for 13.5-million more—which would have given the group a 21.3% stake in the big company—Pickens and his backers by late February had sent Gulf's management packing for a "white knight."

Atlantic Richfield lined up $12-billion in credit through 64 banks—a maneuver that put them in the forefront of presumed candidates for Gulf—and prepared to make a $72 per share bid for the company. An investment-banking firm, Kohlberg, Kravis, Roberts & Co. came to the table with the highest bid, $87.50/share. But its was a leveraged cash-and-securities buyout with some risk attached, troubling Gulf managers concerned about future returns for shareholders.

Then, even though he arrived at Gulf's Pittsburgh office a day later than his bidder competitors, Socal Chairman George M. Keller's $80 per share offer was the one accepted by Gulf's directors, and Arco graciously bowed out.

Gulf's jobbers, who had been desperately trying to learn what was going on, learned along with everyone else in early March that the deal had been consummated with Socal, subject to federal government approval.

"We got our first direct word from the company about 4:30 or 5 yesterday (March 6)," said one jobber. "The Gulf district people called to say Gulf's marketing department had just completed a conference call with Socal's people. They said Gulf's marketing department will become a division of Socal, but everything will remain the same. There will be no change whatever."

This jobber and other sources, however, found it difficult to believe that no changes will occur. In fact, a Socal spokesman said right after the Socal/Gulf deal became public knowledge that he assumed some overlapping refining and marketing assets would have to be divested to gain Federal Trade Commission or Justice Department approval. What's more, Socal's Keller acknowledged to reporters early last month that a "significant portion" of Gulf's downstream operations would have to be sold to clear government hurdles, and even intimated that Socal already had gotten a few nibbles for Gulf properties.

Many Gulf jobbers, therefore, found private assurances from company reps sounding rather hollow. "Gulf's marketing people have been living off rumors for months now," said one jobber. "Socal wants to settle them down and get them out selling. They are telling them everything will be rosy, but you know it won't be."

Another Gulf jobber said the situation was all too scary for him. "I'm waltzing around now, trying to find another supplier I can fall back on," he said. Many Gulf jobbers were concerned about losing the company flag and coping with new credit card policies.

"The members are concerned about it, especially the ones who know they wouldn't get the Chevron brand," said a spokesman for Atlanta-based Gulf Oil Wholesale Marketers Assn. (GOWMA). "There are others who might be able to convert, but who would be competing against existing Chevron jobbers.

"But GOWMA members are not so much concerned about a source of supply, because that is protected by the Petroleum Marketing Practices Act. They are most concerned about losing the flag," he said.

Socal's Keller: 'White knight' is prepared to spin off most of downstream Gulf.

Other Gulf marketers wondered about the differences in credit card policies. "You know Gulf has the free card, and Chevron, the cash discount," said one. "There could be some pluses and minuses, though, if the cards are interchangeable."

Marketing Staffs

Almost everyone expects to see substantial trimming of Gulf and Getty marketing staffs as these companies are merged into the operations of their new owners.

"One of the obvious merits of a merger comes from the combination of human and technical resources of each company," said a Socal spokesman. Adds a financial analyst: "You can cut out a lot of general and administrative expenses.

That's what makes some of these deals work."

Tom Differ, senior marketing vice president of Getty, has told friends he is at early retirement age and willing to step down. His main concern reportedly is the welfare of Getty marketing employees. Many of these could remain in place until Texaco completes its divestment of most Getty downstream assets.

Socal spokesmen have said it plans to retain many of Gulf's marketing people. Gulf, however, was in the process of making substantial staff reductions prior to the merger. Ron Hall, marketing vice president who came over from Shell in the fall of 1982, was reducing both the marketing staff and Gulf's network of direct-supply stations [NPN—June '83, p36].

Gulf's top officials are expected to be the first to go, despite public statements by Keller that he welcomed Gulf Chairman James Lee and other executives to the Los Angeles company. According to a Gulf proxy statement, the company's 13 directors and an unspecified number of corporate officers held outstanding stock options for 1,253,800 shares at $31.47 a share. If sold at Socal's acquisition price of $80 a share, the group collectively would make $60.1-million. Some top executives reportedly stood to pile up between $2-million and $4-million from their stock benefits.

In addition, some Gulf marketing employees repeated company rumors that the Gulf board, prior to the merger, set aside lucrative severance pay arrangements for top executives.

Getty Liquidation

Marketers couldn't help but feel a bit unwanted as they watched Texaco quickly agree to sell off virtually all of the Getty refining and marketing assets in exchange for Federal Trade Commission approval of its acquisition.

Texaco's primary interest in Getty, obviously, was the latter's approximately 2-billion bbl. of crude oil and 2.8-million mcf of natural gas reserves. Wall Street figures that Texaco more than doubled its proved reserves of crude at a cost of less than $6 bbl.—versus finding it for $10 bbl.

Texaco agreed to divest itself of nearly all of Getty's downstream assets in 28 states with the exception of one East Coast and one West Coast refinery. It will also retain a handful of service stations in the Northeast. [See page 25 for breakdown.]

FTC gave its tentative approval for the Texaco/Getty merger on Feb. 13. After a 60-day public comment period, final approval was expected. Following this period, Texaco will have one year to shed the downstream properties.

Getty is said to have had a marketing staff of about 3,800 employees. The company supplied 582 jobbers in the Northeast and Midwest. It is doubtful much of the marketing staff will be retained and many of the jobbers are already scrambling for new supply connections.

The plight of Getty jobbers is especially critical in the Midwest, sources in that region say.

What happens to the Getty jobbers "worries the hell out of us," says Ed Kistenmacher, managing director of Petroleum Marketers of Iowa. "We are anxious to see what NOJC will do. We've seen Champlin and Mobil pull out of Iowa. We've seen Texaco and Gulf leave. Now we're losing Getty, a well-managed and respected company. We've lost a lot of (supply) options for people who want a brand." [See related story page 57.]

Gerald Everett, executive director of the Northwest Petroleum Assn., says some 60 to 70 Getty jobbers in Minnesota are "all upset." "We've lost so many suppliers in recent years that they really don't know where to turn," he says.

Texaco pulled out of the region about four years ago. "Some are speculating that Texaco may come back in now, but we don't hear a doggone thing," said Everett in late February.

Jobbers attending some of the early annual meetings in the Midwest were bom-

Company Ranking by Upstream Clout

		Proved Reserves*					
		U.S.		Foreign		Total	
	Assets ($ Billion)	Crude Oil (Million bbl.)	Natl. Gas (Mil. mcf)	Crude Oil (Million bbl.)	Natl. Gas (Mil. mcf)	Crude Oil (Million bbl.)	Natl. Gas (Mil. mcf)
Exxon	62.3	2,800	16,500	3,600	12,200	6,400	28,700
Mobil	36.4	906	6,334	1,349	10,293	2,255	17,257
Texaco	27.1	740	5,799	793	2,416	1,583	8,215
Stand. of Ind.	24.3	1,660	9,007	980	6,049	2,640	15,085
Stand. of Cal.	23.5	1,101	4,764	355	1,153	1,456	5,917
Arco	21.6	2,561	14,438	149	549	2,710	14,987
Shell	21.4	1,178	5,326	32	126	1,210	5,452
Gulf	20.4	816	3,901	1,152	1,804	1,968	5,705
Tenneco	17.4	246	3,208	146	166	392	3,374
Sohio	16.0	1,791	4,816	Neg.	Neg.	1,791	4,816
Phillips	12.1	492	3,432	423	3,245	915	6,677
Sun	12.0	691	3,148	92	486	783	3,634
Getty	9.9	1,240	2,396	700	345	1,952	2,741
Union	8.5	523	5,170	205	1,223	728	6,393
Amer. Hess	6.1	260	993	512	1,151	772	2,144
Ashland	4.2	6	208	12	0	18	208
Kerr McGee	3.8	60	740	79	118	137	858
Diamond-Sham.	3.2	33	846	1	34	34	880
Murphy	3.0	43	314	122	291	165	605
Amer. Petrofina	1.2	36	192	0	0	36	192
Crown Central	1.0	NA	NA	NA	NA	NA	NA

Data compiled from 1982 company annual reports.
**Crude oil reserves include volume of natural gas liquids.*

barding supplier representatives with merger questions at brand meetings. According to most reports, however, the reps were as much in the dark as the jobbers about what to expect next.

Some Midwest Getty jobbers were taking their plight rather calmly, though.

Jim Seedorff, a 2-million-gal.-a-year Iowa jobber who has flown first the Skelly and then the Getty flag for 22 years, said Getty marketing reps have told him to "just sit tight," that someone might buy the Getty package from Texaco and "will want to do business with us." He isn't looking for another supplier because he doesn't want to "jump too quick."

Texaco claims it has had "many inquiries" from parties interested in purchasing the Getty Midwest properties. There has been speculation that Williams Brothers or Koch might buy part or all of the refining and pipeline properties. Some sources estimate that an asking price for the Getty refinery in El Dorado, Kan., would be in the $350-million range, while the tab for the refinery and Getty's interest in the Chase pipeline could be around $500-million.

Some sources believe all of the properties could be had at a bargain, but, as one independent says, "Who wants to buy a refinery or service stations today?

'J. Paul Liebowitz'

Even prior to obtaining FTC's tentative approval to purchase Getty, Texaco agreed to sell 600 Getty service stations and nine terminals in 11 eastern states to Power Test Corp. of Plainview, N.Y., a large East Coast independent chain retailer. Under terms of this agreement, Power Test would also become the supplier of approximately 40 to 50 former Getty jobbers and to about 1,300 service stations owned by them or independent dealers.

The Getty/Power Test agreement was reportedly a $90-million deal. It didn't sit too well with some of the Getty jobbers.

Fairlawn Oil Service Inc., Lincoln, R.I., sued in federal court to block Texaco's acquisition of Getty. Fairlawn claimed in its request for a restraining order that the transfer of Getty's marketing assets to Power Test would add another middleman and lead to higher prices. The court refused to grant Fairlawn's request.

Leo Liebowitz, president of Power Test, was quickly dubbed "J. Paul" by fellow independents following the deal he struck with Texaco. The Society of Independent Gasoline Marketers of America, nevertheless, said it "vigorously" opposed the Texaco/Getty merger, believing such combinations will eventually limit the amount of supply available to independents.

Jack Griffith, president of National Oil Jobbers Council, said the entrance of Power Test as a supplier for the former Getty jobbers meant "another step in the profit sharing."

(See page 25 for a separate story on Power Test.)

Griffith said NOJC had, up to the Texaco/Getty merger, taken a "hands-off" approach to such mergers, primarily because it usually has jobber members on both sides. Then, after the stunning Socal/Gulf development, NOJC moved not only to file comments with the Federal Trade Commission opposing the Texaco/Getty merger but also to seek legislation to halt temporarily such oil company mergers.

"I believe that it is time," said Griffith, "for all marketers—even those who may see a short-term potential gain—to realize that neither independent marketers nor the consumers they serve are winners when the giants of the oil industry merge."

Such mergers siphon off money which might otherwise be used to find more oil reserves, he says. "They (also) limit supply sources for independent marketers and lessen competition in the industry as a whole.

"I don't believe NOJC can stand on the sidelines any longer and watch a real-life monopoly game unfold which has a substantial impact on the long-term viability of the companies it represents," says Griffith. "We must oppose in every way future mergers . . . until a thorough analysis by a responsible government body is completed."

Fight For Gulf

Texaco's acquisition of Getty moved with such lightning speed that it was accomplished before much opposition could be raised. Texaco struck swiftly over a weekend, snatching Getty from Pennzoil, which earlier thought it had a deal to buy the company. Pennzoil later brought lawsuits against both Texaco and Getty, but none seemed likely to affect the final outcome.

Then, for a short time, it looked as though Pennzoil was going to deliver an incredible counter-punch to Texaco. Stories circulated early last month that Pennzoil was teaming up with the wealthy Bass family of Ft. Worth to stage a "Pickens-style," David-and-Goliath raid on Texaco. Bass Brothers Enterprises, which had amassed nearly half of its 9.9% block of Texaco stock since only January, sold its whopping stake back to Texaco for a cool $1.28-billion the day after Gulf and Socal closed up their deal.

The same anything-goes mentality prevailed back in late February, when Gulf, the nation's fifth-largest oil company, was being forced to seriously consider various alternatives.

One story has it that Chairman Lee, who once reportedly said he "didn't have the stomach" for takeover fights (from either side of the trenches), stole away for a few days that month to the isolated woods of Louisiana to ponder his and Gulf's future. Lee, a Mississippi native, and an old oil industry friend were together shooting quail, one of Lee's favorite pastimes. Yet, even the serenity of those back woods could not coax his mind out of the boardroom. As they watched for game, Lee was agonizing with his friend over what should be the proper or moral course of action, if Arco made—as it later did—an attractive offer for his company.

Later that month, what options earlier seemed unthinkable were being filed with the Securities and Exchange Commission. Gulf's statement said it was considering a leveraged buyout, an acquisition by another company, a tender offer for its own shares and the sale of equity or other securities of the company.

This, brought on by another hunter himself, Mesa's Pickens, whose dissident shareholders' relentless campaign for a Gulf royalty trust to disperse oil revenues among shareholders and whose $65/share

A Pair of 'Sisters' Combine . . .

(market share data does not reflect any divestment orders)

	Gulf	Socal	Total
Kentucky	11.04%	12.94%	23.98%
Maine	13.51	8.70	22.81
Arizona	2.71	19.14	21.85
Georgia	11.02	9.21	20.23
Mississippi	8.01	10.77	18.78
California	2.51	15.42	17.93
Alabama	7.54	10.20	17.74
Florida	7.21	9.74	16.95
Tennessee	12.73	4.45	16.82
New Mexico	3.07	11.91	14.98
Texas	12.53	1.48	14.01
Nevada	.01	12.87	12.88

National: Socal/Gulf will have 10.1% of market, highest in history. Texaco had 8.5% in 1971, previous high.

Source: Lundberg Survey

tender offer in late February to raise its Gulf stake to 21.3% and slate its own company directors eventually forced Gulf into a shotgun wedding with Socal.

Inadequate Defense?

The stakes for the jobber segment of Gulf were very high. Gulf had 1,715 jobbers at the end of 1982, and had its flag up at 14,598 retail outlets in 22 states. Jobbers agreed, as they watched the round-by-round battle for Gulf in late February, that any merger or takeover could be devastating to their segment.

As Pickens' group headed up one offensive after another and then, different suitors paraded through financial records which Gulf laid bare for bidders to examine, many jobbers felt the downstream properties would be treated like disposable wrapping on the upstream jewels.

One said whoever picked up Gulf "would try to sell off the refining and marketing assets. But who would buy them? That's the big question for jobbers."

Some of the company's jobbers criticize management for not taking steps sooner to protect the company from a takeover attempt.

"They dickered with Superior and could have bought that company, but they decided the price was too high," said one. "They looked at Getty for $75 a share (Texaco paid $128), but decided to pass that one up, too. They sat on their butts and they didn't find any oil. You either buy companies with crude today or you get out and find the stuff."

This jobber, as well as some others, believe Pickens had a point in claiming that many top corporate oil executives are more interested in protecting their "perks" than shareholders' interests. "I think he has stirred up shareholder interest in what's going on at all companies."

For his part, Pickens has made off like a banker for his rabble-rousing. Company records show his aborted takeovers of Cities Service and General American in 1982 netted Mesa Petroleum nearly $74-million. And, now, if the Mesa investor group sells its 13.2% share of Gulf to Socal at its $80/share price, Mesa pockets a numbing $507-million of the group's $706-million winnings.

But for the losers, most Gulf jobbers don't blame Jim Lee for the passing of Gulf. In fact, many of them give him credit for "turning the company around"—especially after the political slush fund scandal that sacked Gulf's top brass in the mid-'70s—before Pickens began to preoccupy Gulf officials.

"It was mismanaged by fat cats for 20 years before Jim Lee came in," says one jobber. "He began trying to cut costs and do something with marketing. He was doing a good job too. But he couldn't trim the fat down fast enough. The big-money boys just saw the company as a big, old, fat wounded cat, and they went after it."

Southeast raises antitrust concerns, where Socal's 280,000-b/d Pascagoula plant joins Gulf's combined 612,000-b/d capacity.

T. Boone Pickens, whose corporate raids since '82 brought Mesa $681-million, this month faces a Texas jobber meeting.

Independent Reaction

Although SIGMA quickly condemned the Texaco/Getty merger and said it remains opposed to fewer and fewer companies gaining control of crude oil supplies, some independents didn't seem too concerned over the Texaco/Getty merger.

"Everytime one goes out, you've lost one more supply option, but I philosophically believe a company ought to be able to do with its assets what it wants to, within reason," said Tom Love, president of Musket Corp., Oklahoma City.

Large chain retailers like Love, of

What Mergers Total in People and Properties

	Gulf	Socal	Total#
Refineries *(1/83)*	Five	Twelve	17
(thousands b/d)	881.1	1,469.7	2,350.8
***Retail outlets**	14,598	12,403	27,001
****Jobbers**	1,715	777	2,492
Employees *(12/83)*	43,000	40,000	83,000

 # Socal-Gulf figures do not reflect divestiture of refining and marketing assets

	Getty	Texaco	Total##
Refineries *(1/83)*	Three	Nine	12
(thousands b/d)	278.2	937	1,215.2
***Retail outlets**	4,494	18,692	23,186
****Jobbers**	582	1,176	1,758
+Employees	19,000	56,000	75,000

***Total company- jobber-owned end of 1982**
****1982 Figures**
##Texaco-Getty figures do not reflect properties slated for divestiture per the February 13 consent order of FTC.
+Getty employee figures for 12/83; Texaco, for 9/83.

course, could gain if the mergers continue and marketing properties are spun off.

An analysis of Getty's operations, according to one report, showed the company was making an overall return on assets of about 11%, but refining and marketing was making no contribution. If Getty had spun off refining and marketing, its return on assets would have changed from 11% to 18%.

Top management at other companies will be taking a harder look at such results in the future, some independent marketers believe, and could begin making some tough decisions.

"The honeymoon is over for traditional-type marketing," says an independent. He thinks some companies geared to jobber-type operations may soon conclude that direct-type marketing is best.

Whatever happens as the merger waters continue to boil, almost all branded and unbranded marketers look for big changes to occur in the near future. NPN

What Texaco Sheds To Seal Getty Deal

In order to get Federal Trade Commission approval for its acquisition of Getty, Texaco readily agreed to sell off nearly all of Getty's downstream marketing assets. Here is a breakdown of properties sold or to be sold:

—Approximately 2,931 Getty-owned stations. Of these, 2,300 are in 15 Midwest states (Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Michigan, Missouri, Nebraska, North Dakota, South Dakota, Oklahoma, Wisconsin, Wyoming and Texas). The remainder are in 11 eastern states (Maine, New Hampshire, New Jersey, Pennsylvania, Delaware, Maryland, Vermont, Massachusetts, Rhode Island, Connecticut and New York).

—An 80,000 b/d refinery in El Dorado, Kan., plus Getty's share of the crude lines associated with it.

—Texaco will keep Getty's 140,000 b/d refinery in Delaware City, Del., but dispose of a smaller Texaco plant at Eagle Bay, Del.

Getty was in the process of selling 30 former Mohawk stations it had in California before merging with Texaco.

Getty had 582 jobbers at the end of 1982. Power Test will take over supply commitments for many in the East. Several suppliers, mostly second-tier majors, are expected to compete for the jobber accounts in the Midwest. Market sources say many of these accounts are small, however, under the 5-million-gal.-a-year minimum size many suppliers now seek.

Texaco agreed to continue supplying product to Getty jobbers and dealers in the East through Power Test, and agreed to supply crude oil at the rate of 100,000 b/d for the next five years to 17 independent refineries in California formerly supplied by Getty.

Texaco's $90-M Spinoff Makes Power Test Awesome Atlantic Force, No. 1 U.S. Indie

It's only a matter of days now—presuming that the Texaco/Getty merger will be officially sanctified in Washington as scheduled—until Power Test Corp. reaps the wild wind too. A secondary beneficiary of the phenomenal $10.1-billion Getty Oil acquisition, the Plainview, N.Y., company overnight will become the nation's No. 1 independent gasoline marketer, a veritable corporate giant among its erstwhile Lilliputian peers.

About the only "independent" of comparable size will be Southland Corp., the giant C-store chain which will have more service stations and more gallonage than Power Test. But since it acquired a 280,000 b/d refinery last year when it purchased Cities Service, Southland is properly lumped into the refiner-marketer league, not an indie marketer only.

Power Test's star will flash high above the horizon because for approximately $90-million, it will acquire virtually all of the marketing operations that Getty had in the East. This includes about 600 to 700 Getty-owned or operated stations and about 1,300 others, of which 700 are contract dealers and 600 are supplied through 41 jobbers, nine terminals, a fleet of transport vehicles, an in-place marketing staff and a distillate fuel oil market exceeding 450-million gal. a year.

In one fell swoop, Power Test will burst forth from its present five-state, 200-million-gal.-a-year gasoline world and become:

- The biggest truly independent gasoline marketer in the land with 2,500 service stations in 11 East Coast states from Maine to Virginia, and as far west as the Ohio border.
- The wholesaler-retailer of an annual gasoline volume believed to be well over 1-billion gal. a year, more likely in the neighborhood of 1.25-billion gal.
- An awesome, independent heavyweight in the distillate fuel oil market, something it had only had a minor interest in before. The Power Test volume—based on Getty figures and Texaco's commitment to supply 11-million bbl. a year for three years—is estimated at 450-million gal., give or take.

Mastermind and prime architect of the Power Test eruption is mild-mannered, soft-spoken Leo Liebowitz, its president and one of the co-founders of the firm. Liebowitz and executive vice president Milton Safenowitz have been business partners since 1955 when they became Sun dealers at a station in Queens, one of the five boroughs of New York City.

He and James Kinnear, vice president of Texaco U.S.A., negotiated the deal literally over a weekend, not long after Texaco stepped out of the shadows and outbid Pennzoil Corp. for the Getty empire. The divestiture was a matter of necessity for Texaco to minimize antitrust problems and insure federal approval of the acquisition.

Liebowitz said he had no plans to rebrand the Getty stations as Power Test units.

"Getty has a good name and we're going to go with things as they are," he said. "The Getty operation will become another Power Test subsidiary, that's all.

"We hope too that we can take aboard as many of the Getty marketing people here in the East as possible.

Liebowitz: From Sun dealer in Queens in 1955 to Number One Indie powerhouse.

"We can't talk too much about our plans yet because we still have to wait for final FTC approval of the Texaco/Getty merger itself, and our contract to buy can't be implemented until that is approved in Washington."

FTC's clock will run out 60 days after publication of the agreement in the Federal Register. This had not been done by March 1. Thus, Power Test will not actually be in control of the Getty appa-

ratus until roughly the early part of May—assuming also that there'll be no court injunctions or suits which delay the proceedings.

Of the 2,000 or so Getty stations, most are lessee or dealer operated—a route that Liebowitz prefers. The majority of them are full-service stations, and industry sources indicate they average about 40,000 to 50,000 gal. a month.

Power Test has a mix of stations too. Its overall average is around 50,000 gal./month, but it has a goodly number of "gas-only" stations which are close to 100,000 gal./month. Although Liebowitz didn't say so, some industry sources said he'll probably shoot for 100,000-gal./month from some of the better Getty stations with good traffic counts.

Melding Marketing Styles

There were some feelings of apprehension among the Getty stations and contract outlets slated for transfer. Some retailers said they had heard that Liebowitz was a very tough driver, while others wondered whether the inter-laying of a jobber as a source of supply, rather than an oil company, might put an even tighter squeeze on their already thin margins.

Asked whether there might be changes given the fact that Getty usually ran a penny or so above the market and Power Test discounted in the other direction, Liebowitz merely commented: "We're going to continue operations as they are for the time being. As things settle down, we'll look at the competitive factor for each station and make our decisions accordingly."

What about gasoline grades? he was asked. Getty recently became a two-grader on the East Coast—unleaded regular and unleaded premium, while Power Test has traditionally paralleled the market pattern of three or more grades. "No change for now," said Liebowitz. "We'll just have to see what it looks like after the acquisition goes through and we have a chance to become fully acquainted with markets and situations."

Liebowitz has never publicly discussed his company's plan to finance the $90-million purchase of the Getty combine. He was very blunt, though, in disposing of field reports that he had gotten a "sweetheart" deal from Texaco.

One version said Texaco had loaned Power Test the money for the purchase; another said Texaco had agreed to a no-down-payment and no-interest-for-five-years proposition. "The people saying that don't know what they're talking about," said Liebowitz. "It's just not true, that's all. We should have such nice things happen to us!"

As for lessees, one thing they can be sure of: Their rents will be tied in with the real estate value, not the gallonage. So, greater volume will mean more money for them but not necessarily an increasingly upward tilt in the rent.

(A Getty spokesman said only that its station rents had been determined a variety of ways.)

Power Test's contract with Getty provides that Texaco will supply it with 22-million bbl. of gasoline a year to take care of the Getty stations. Could this set up situations where Texaco-supplied gasoline at a Getty station would be competing with Texaco gasoline at a Texaco station across the street?

"What's unusual about that?" asked Liebowitz. "We buy gasoline from a variety of suppliers and sell it as Power Test against all competitors. Besides, Texaco accounts for only a small part of our supply at the present time, and there's no requirement that we have to buy more from it. We have a number of suppliers."

Also part of the contract, Liebowitz will get nine Getty terminals. They're located in Long Island City, Rensselaer, and Setauket, N.Y.; Newark, N.J.; West Philadelphia, Pa.; Seaford, Del.; Providence, R.I.; South Portland, Maine, and New Haven, Conn.

The new lineup will give Power Test a major wallop in East Coast gasoline marketing. It won't be No. 1 in any of the dozen states involved but will be a bigger marketer in many of them than such big league names as Chevron, Exxon, Amoco, Mobil, Citgo, Sun and Phillips. It's biggest representation will be in New York, where it will have almost 900 sta-

In some cases, such as this one in Morristown, N.J., Texaco will supply product to its station as well as a competing Getty outlet (down the road, on the right) under Power Test.

Getty/Power Test Networks, State by State

	Getty	Power Test*	Post-Sale Combined
Maine	99	—	99
New Hampshire	79	—	79
Vermont	71	—	71
Massachusetts	253	28	281
Rhode Island	68	—	68
Connecticut	168	36	204
New York	551	339	890
New Jersey	470	57	527
Pennsylvania	205	2	207
Delaware	41	—	41
Maryland	51	—	51
Virginia	1	—	1
Totals	2,057	462	2,519

*336 of Power Test's units are direct-ops, 134 lessee; 428 are full-service, 32 self-service and split island.

tions. That's only a handful behind Exxon, which ranks No. 3 in New York state.

Several years ago, *NPN* did a major article on Power Test, noting that it was the East's "New Powerhouse Marketer" [NPN—Feb. '79, p63]. In a splurge of buying the preceding year, Power Test had built up its service station string to 465 outlets. Late last year, Power Test still had only 462 stations. What happened in the interim?

"The total is about the same," said Liebowitz, "but in the intervening years, we pruned some and added some. So, what we have now are better and stronger stations. We've also expanded our C-store concept and currently, we have 65 stations in the food and grocery business, along with gasoline.

"Our headquarters fills 22,000 square feet of space in Plainview [about 30 miles out on Long Island from New York City] and we have seven district offices as well as three terminals. Soon we'll have a lot more. Power Test will be a much bigger and much stronger competitor here in the East."

—J. Richard Shaner

Mergers' $47-Billion Spent in 32 Months

	Acquirer	Cost *(bil. $)*	Date of deal
Conoco	Du Pont	$7.4	7/6/81
Marathon	U.S. Steel	6.5	11/19/81
Citgo*	Occidental	4.0	8/3/82
Getty	Texaco**	10.1	1/6/84
Gulf	Socal**	13.2	3/5/84
Superior	Mobil	5.7	3/12/84

*Cities Service downstream assets later sold to Southland Corp. last March.
**Subject to final FTC approval.

Feds Signal Oil: Merge Now, While 'Big Is Not Bad'

"If oil companies are inclined to merge, now is the time to do it. The present administration is very liberal about such things, and will let almost anything go through," says an independent marketer.

It certainly seems this is so.

Of all the possible interpretations of the Federal Trade Commission's tentative approval of the Texaco/Getty merger, the clearest message that emerges is that big no longer is bad.

Nowhere in the documents relating to the case does it discuss the sheer size of the companies involved. Texaco was the industry's third largest company and the fourth largest industrial corporation in the U.S. before acquiring Getty, the industry's 13th largest.

James Miller, FTC chairman, said the consent order "provides important safeguards" against future anticompetitive effects stemming from the merger.

FTC voted 4-1 to approve the consent order after Texaco agreed to sell off most of the Getty refining and marketing assets.

The lone dissenter, commissioner Michael Pertschuk, argued that the order will "be the latest in a series of second-tier oil firms to disappear as independent companies." He says the long-term effect of their disappearance could mean "tighter and tighter control of the oil industry by the major companies."

The "green light" has been given to other major oil company mergers, Pertschuk believes.

Interestingly, while FTC was giving a quick okay to the Texaco/Getty deal, the Justice Department was saying it would sue to block a merger between LTV Corp. and Republic Steel on the grounds that such a merger would increase concentration in three product lines.

To add still another contradiction, however, FTC also recently approved a General Motors' proposal to produce cars jointly with Toyota Motor Co.

Sources in Washington say FTC seems more in line with Reagan administration policy than the Justice Department. Justice antitrust chief J. Paul McGrath reportedly was called onto the carpet at the White House in late February shortly after blocking the LTV-Republic deal. Weeks later, Justice reversed itself and cleared the deal.

Mergers are usually handled by either Justice or FTC, depending on which has previously investigated the industries involved. However, this has not always been the case.

When Mobil wanted to acquire Conoco, Justice insisted on investigating before FTC took over. The delay may have kept Mobil from getting sufficient clearance before DuPont got Conoco.

But whatever agency handles such merger cases now, the general policy in Washington at present seems to be to let them past with minimal intervention.

This was not so with past administrations, of course, and the situation could quickly change under a new one.

"This is one reason I think we'll quickly see more mergers," says one marketer. "The oil companies know they better act now while Reagan is in office."

"It's an interesting situation," says a jobber association executive. "It looks like the companies are taking advantage of a green light from Washington and plan to run over everyone. Our jobbers are in a quandry, though. A change in administration might bring them worse things than this." NPN

Georgia Divorcement Bill Awaits Signing

Georgia is on the verge of becoming the fifth state in the nation to adopt a divorcement law that will ban suppliers from operating their own service stations after July 1, 1985.

There is a "grandfather" clause in the law, however, that will permit refiners to continue to operate their own stations that were in place on Feb. 20, 1984.

The divorcement bill was pushed through both houses of the Legislature in a surprise maneuver triggered more or less by the Georgia Assn. of Petroleum Retailers and aided by a small group of independent jobbers at the eleventh hour.

The maneuver was accomplished by substituting the language in another bill. The house quickly adopted it 112 to 51, and the senate followed that up with a resounding 45 to 7 vote of its own.

Gov. Joe Frank Harris has roughly until the first of this month to sign or veto the bill. But the retailers were confident that he would give it his endorsement.

"He's a small businessman himself, and he knows our problems," said one dealer representative. "We'd be the most surprised if he rejected the bill—especially in view of the lopsided votes of approval in both houses of the legislature."

The events coincide with a similar bill now winding its way through the California Legislature, having picked up a rare endorsement from the Los Angeles-based Serve Yourself & Multiple Pump Assn. [See story on page 60.]

If Georgia does authorize the divorcement law, it will join Connecticut, Delaware, Maryland and Virginia as states which have such canons. Pennsylvania is struggling with one too, but it is not known whether it can be salvaged from the legislative mess it is in now.

Georgia retailers say about 400 of the 11,000 gasoline stations in the state are direct-ops.

Meantime, Georgia marketers still are awaiting a decision from the State Supreme Court on the interpretation of a law that will inhibit jobbers in retailing gasoline in the state.

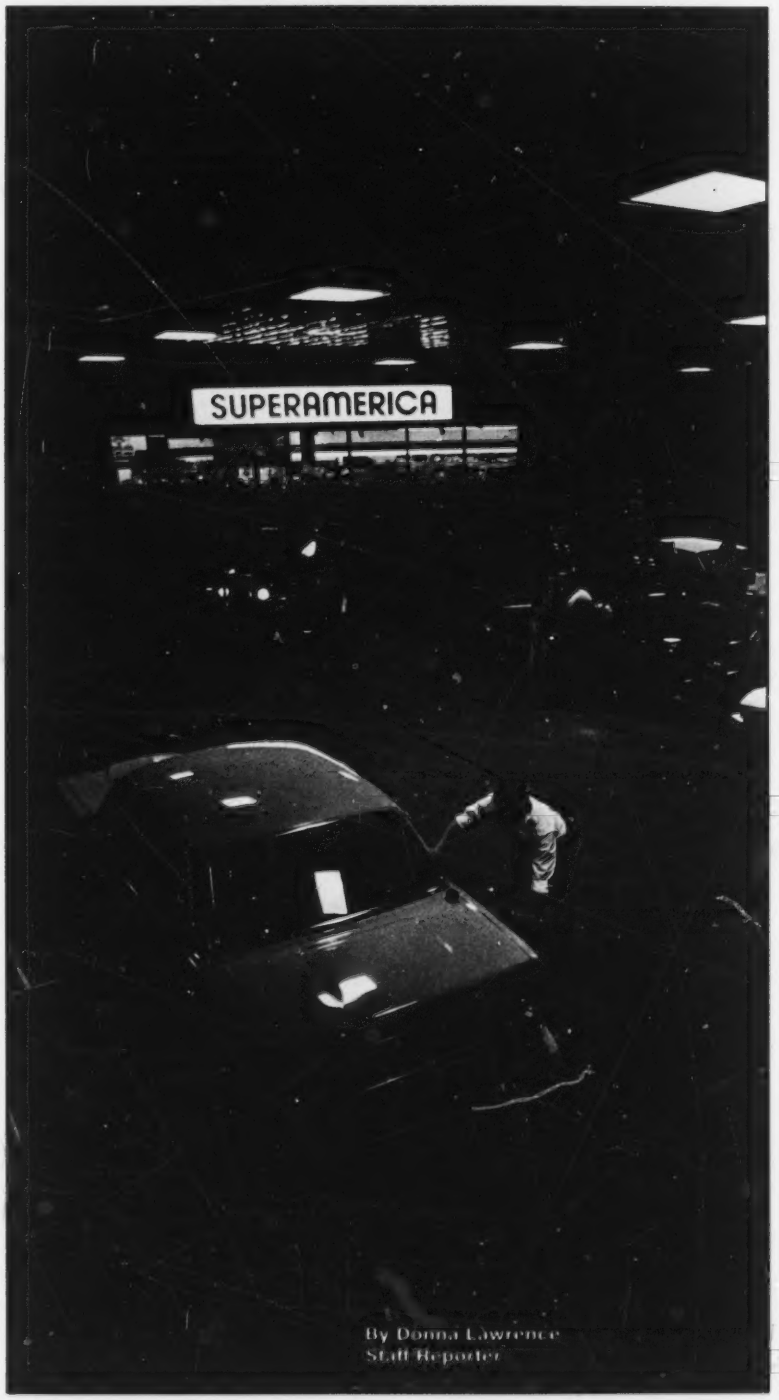
The case went up to the high court last summer, but it has been logjammed behind a mountain of other appeals. Indications now are that it will be this month or May before action can be expected.

The case seems relatively clear cut: Can jobbers take advantage of their lower wholesale costs to reduce pump prices in competitive marketplaces, especially where they are competing head-on with retailers supplied by them?

A fuzzy law passed by the Legislature seems to say "no, they can't." Therein lies the appeal. NPN

Can You Afford to Enter Crowded Field?

Why C-Stores Lead Gasoline Markets



By Donna Lawrence
Staff Reporter

In the early Sixties, the strategy of building food mart/gasoline outlets was considered questionable. And, the gasoline pumps that later sprang up outside "mom and pop" convenience stores were not taken seriously.

But in the last 10 years or so, convenience store outlets have seized an estimated 12% to 15% share of the retail gasoline market, up from 1% in 1974, and the convenience/gasoline craze can no longer be taken lightly.

John Roscoe, a store industry analyst, estimates there were 50,000 C-stores in 1982, with almost 60% selling gasoline. Roscoe says these stores sold 11.9-billion gal. of gasoline that year, or 12.09% of the national market.

"It is likely that the number of units, the amount of gasoline sold, and the percentage of the national market supplied by convenience-type stores is higher than the figures shown in my estimate," he says.

There were only 3,500 C-stores in the country in the early 1960s, according to the National Assn. of Convenience Stores, and only a handful of those offered gasoline. Now, NACS' most recent 51,150 nationwide tally is considered conservative. Almost half those numbers were estimated to be selling gasoline, but the count excludes stores of less than 1,000 square feet, eliminating many oil industry conversions and kiosk operations.

"It is difficult to pin down all the mini-marts," says Mike Scanlon, policy vice president of the National Oil Jobbers Council, adding that 40% of NOJC's individual jobber/members own C-stores. Between 1980 and 1982, the number of members owning stores swelled from 7,500 to 8,868. "All our members carry extraneous items that would not fall into petroleum products or related TBA items," clarifies Scanlon.

The service station population has declined by more than a third over the past 10 years. And, the high-volume, gasoline-only pumper of recent years has been fading, as even major oil companies with choice locations are fighting to offset shrinking fuel demand by stocking snacks and cigarettes.

"We're going to be pretty aggressive in the development of mini-stores," says Sam Van Sickle, Amoco's marketing vice president. "The dealer today has to operate on a minimum margin, and we are looking for any place we can establish ancillary income."

The bottom line is cost efficiency. The C-store boom can be attributed to the 3¢ to 5¢ gal. operating margins that can be squeezed from a successful store. NACS' 1982 average pooled gross margin for convenience stores was 20.8%, combining a store margin of 30.1% with a mere 4.5% for gasoline.

"Years ago, if you could have grocery

items for gasoline customers, it was just a good tie-in," says Leroy Rodden, vice president of Mid-State Oil Co. in central Missouri. "Now, it's a necessity in order to survive."

As the oil marketers build store sales to boost margins, the convenience store operators are installing pumps to increase customer traffic. Industry figures for 1982 indicate the average sale per customer rises from $2.07 at a store without gasoline to an average $3.46 at a store with pumps.

"We are selling convenience," explains Tom Ewens, senior vice president, National Convenience Stores Inc. (NCS), "and gasoline is a natural extension of that."

Stores Take the Lead

During the mid-1970s, private-brand independents with their self-serve pumpers posted the lowest prices in town. These high-volume units generally were believed to be the most cost-efficient way to retail gasoline. But the C-store seems to have usurped the pumper in many markets, and now it is the stores which are often fingered for cut-rate competition.

"The multi-product marketers (convenience stores) who cut prices below cost at the pump and 'cover' the loss with markup on beer, bread, milk and sandwich meat" is one of the major forces behind below-cost selling in Ohio, according to Roger Dreyer, executive vice president of the Ohio Petroleum Marketers Assn. His sentiments are echoed in other markets where C-stores have flourished.

"If we choose to remain a two-bay service station operator, somebody's going to eat our lunch," laments one independent.

Of course, gasoline marketers with C-stores claim they are not guilty as charged, but merely equipped to sell gasoline on less margin.

"We feel that in a C-store you can get by with a lower margin," says Mid-State's Rodden. "We like to get an 8¢ gal. margin. It takes 10¢ gal. to operate a service station," says Rodden, noting central Missouri prices are not as competitive and margins not as slim as in urban areas.

In the early Seventies, when the rush to C-stores developed, it cost from $4,500 to $6,000 per month on average to operate a lessee-type service station. But marketers found they could operate a self-serve "pumper" or a salaried C-store with gasoline for about $3,500 to $5,000 a month.

A lessee dealer operating on a 10¢ gal. margin needed to pump 45,000 to 60,000 gal./month to break even. A self-serve pumper could get by on 100,000 gal. at 5¢ gal., or half the dealer's per-gallon margin requirement. But the salaried convenience store could beat them both. All a store owner had to do was sell $15,000 inside at a 20% markup, meeting $3,000 of his operating costs, then muster up the other $2,000 pumping 40,000 gal. on a 5¢ gal. margin.

"It seemed like the perfect marriage," says one midwestern independent.

Some jobbers have referred to the stores as the industry's savior. But others say that today, nothing can save them from soaring operating costs. One jobber estimates that the initial investment in a ground-up facility has quadrupled in the past decade. [See related story on page 39.]

But efficient marketers say the smart money is still on convenience stores. Marketers place monthly operating costs for "super" salaried C-stores at between $15,000 and $17,000, while large, self-serve, salaried pumpers and lessee-type operations cost about $12,000 a month to operate.

Now, a lessee dealer needs to pump about 120,000 gal. on a 10¢ gal. margin, while a pumper needs around 240,000 gal. at 5¢ gal. to cover operating costs. But C-stores doing $1,000 a day on inside sales at a 30% markup can cover $9,000 of their monthly expenses, making up the balance by selling 120,000 gal. to 160,000 gal. gasoline on a 5¢ gal. margin.

One large Tennessee-based C-store marketer, for example, says he can run his 135-million-gal./year company on less than 7¢ gal. Retail margins in his markets often hover around 3¢ gal., and he tries to make the equivalent of 4¢ gal. from store sales.

"We can lower gasoline to cost and pump it for the next five years," boasts a southeastern C-store owner.

The proof has been in the pump price signs.

Majors Now in the Act

Independent C-store marketers are no longer just fighting among themselves for market share. The major oil companies are starting to jump aboard a perilously crowded bandwagon.

"Anytime you get more people in the market, it cuts up the pie," says Daryl McKinney, a northeastern Minnesota gasoline/C-store marketer. And, major oil companies, with choice locations and "deep pockets" can carve out a sizeable chunk.

The Lundberg Survey indicates C-stores have become refiner/marketers' favorite diversification. The majors now have more convenience-store outlets than they do carwashes or truckstops [NPN—March '84, p31]. Citgo leads the majors with 32.2% of its surveyed outlets classified as convenience stores, while Arco is a distant second, with 14.8% of its outlets being C-stores.

Overall, 3.8% of the major oil company outlets can be called C-stores. On the other hand, 16.9% of all independents' outlets are C-stores. But the majors have only started to tag along with the C-store trend.

Some majors do not even flirt with the concept. Although the trade press has reported Exxon was experimenting with stores, the company denies it is conducting market tests. And, Chevron stresses it is a full-service, dealer-oriented marketer that does not "pretend to be a grocery expert."

Other companies only say their stores are in the experimental stage. Shell has about 200 primarily dealer operations with a limited line of convenience items. The company also is running a joint test with Southland Corp. Union's eastern division has 125 food marts and is converting some of its existing service stations to 1,500-sq.-ft. C-store operations [NPN—Jan. '84, p23].

Still others have shifted from the experimental to the expansion mode, although the number of conversions

Even before it bought Citgo, giant Southland Corp. sold 1.15-billion gal./year.

remains conservative. Many of these stores are not full-scale. Sun Refining & Marketing plans to add 20 stores a year to its existing Stop 'N Go subsidiary in Ohio and Philadelphia, while this year expanding its experimental Sun Marts. Amoco plans to add to its 200 to 300 Food Shops, mini-stores not larger than 968 sq. ft. Mobil last year began installing 480-sq.-ft. to 600-sq.-ft. snack shops at service stations.

"Over 70% of the new outlets have service bays, and will continue to," says Mobil's Herman Hokamp, general manager of resale marketing. "We are in the gasoline business and would like gasoline to carry the prime value."

"We have no intention of building 2,000- to 3,000-sq.-ft. convenience stores," says Amoco's Van Sickle. "That would put us in the grocery business."

Texaco two years ago launched its ambitious System 2000 plan, which included high-volume outlets offering food marts and carwashes. The company built more than 200 of them, and about 75% of the units included food marts. Company officials say the concept helped boost Texaco's average throughput from an industry low of 25,000 gal. to 50,000 gal./month.

"The food marts provide an income stream and naturally contribute to gasoline sales," says Jim Conard, manager of retail marketing, Texaco USA.

Aside from Citgo, Arco is the only major to plunge headlong into convenience store marketing. Many marketers consider the snack tie-in and Arco's already aggressive street pricing tough to beat. And, while many C-store operators feel the oil industry has much to learn about grocery merchandising, a spokesman for a large public C-store chain at least considers Arco a formidable competitor.

"We made a deeper commitment to the convenience store business than other companies, and we feel we have more than what you would call a mini-mart," says Arco's Joe Tebo, manager of sales development. "We have a distribution system and proprietary products and a fairly large advertising budget for our stores that other majors don't seem to have."

Although the majors are newcomers, other marketers feel big oil already has had a sizeable impact in some marketplaces. Jobbers say larger players' investment in land, facilities and merchandising expertise is difficult to match.

"If you have got a Shell or a Gulf that can put in a state-of-the-art model across the street from you, it's impossible to compete," says Jim Ezell, a Dallas 9-million-gal.-a-month gasoline/C-store operator. "They have the awesome ability to spend a million dollars for a service station."

Ezell says the majors' entry into his Dallas metro-area market has made independents more image-conscious. And, improved image means higher maintenance costs.

"You used to get by with a grungy, seedy image, but now that the major oil companies are competing, cleanliness counts. People could forgive a lot for price, but nobody has a price advantage anymore," he laments.

Chain Power

As long as C-store chains cared more for groceries than they did for gallonage, jobbers did not view convenience store operators as a competitive threat. After all, NOJC estimates that in 1982, jobbers supplied 75% of the C-stores with gasoline. One large southeastern C-store chain, Li'l General Stores, even has been seeking joint ventures with jobbers, and the chain's vice president of marketing is a former Detroit jobber.

But Southland's purchase of Citgo shocked marketers and placed the company in a different league than the "harmless grocers." Southland can compete at the refiner, wholesaler and retailer levels, and compete with expertise.

"Southland is unique in that it has 7,000 stores, and nobody even comes close to that number," says Tom Ewens of NCS. The nearest competitor is Circle K with just more than 1,200 stores.

Although most major store chain spokesmen say they are not in the market for a refinery, a few of them say they would not rule out such an acquisition in the future.

"With more oil company mergers and refinery shutdowns, properties are up for sale," explains NOJC's Scanlon. "If a chain wants to be sure of its own source of supply, some refinery might do the job."

The majors also might buy out chains. Sun Refining & Marketing acquired its Stop 'N Go chain in the 1970s, as well as two other chains it sold after closing its Corpus Christi, Texas, refinery.

"We bought a successful chain that knows the business and can control profits

Oil Companies**

	Outlets with Stores	Company-Owned Outlets	Average Inside Sales per month	Average Gallonage per month
Amoco	200-300	7,800	N/A	90,000 gal. (min.)
Arco	800	2,968	N/A	125,000 (lessee)
Ashland/Superamerica	281	450 (e)	Over $15,000	80,000 gal.
Gulf	300-350	3,900	N/A	N/A
Mobil	675 (a)	4,500	$25,000-$30,000	N/A
Phillips	2 (b)	233	N/A	N/A
Shell	200 (c)	5,120	N/A	N/A
Sun/Stop 'N Go	452 (d)	3,800	$32,000	60,000-80,000
Tenneco	250	238 (f)	N/A	100,000
Texaco (System 2000)	200	2,600	$15,000-$30,000	150,000
Union (Eastern Region)	125	465	10%-20% of total sales	N/A

**Data supplied by oil company executives.

(a) One-third of all new and rebuilt stations are C-store/gasoline units.
(b) Plus one Super Center

and shrink," explains Jim Graham, Sunoco's director of convenience stores. "People who enter this business that are not well-prepared will go bankrupt very quickly."

A good number of C-store operators have purchased gasoline marketing expertise by buying jobberships. And, store operators are demonstrating greater commitment to the retail gasoline market than ever before.

Store industry analyst John Roscoe says gasoline now represents on average about 37% of total sales dollars of the 10 publicly owned C-store chains he surveys, up from 30.8% in 1980. Now, gasoline margins account for about 15% of the total margin dollars developed by these combined gasoline and store units, Roscoe says. The percentage of C-stores nationwide that pump gasoline has increased from 44.45% in 1980 to 49.11% in 1982.

The chains Roscoe surveys also show some spectacular gallonage gains over the past few years:

—**Shop & Go's** gallonage increased 76%, from 42-million gal. in 1981 to 74-million gal. in 1983.

—**Circle K's** gallonage rose 63% between 1979 and 1983, from 155.9-million gal. to 255.5-million gal.

—**Southland's** gallonage increased 87% between 1978 and 1982, from 616.2-million to 1.15-billion. (Note: that's prior to purchasing the downstream assets of Cities Service.)

—**National Convenience Stores'** gallonage increased 102% between 1979 and 1983, from 114.5-million gal. to 231.6-million gal.

One chain, Munford's Majik Markets, averaged 56,000 gal./month per outlet last year, the highest in Roscoe's survey. Of the chains surveyed, however, the average throughput per store in 1983 was 33,030 gal./month.

"Today, few stores, including those being built by traditional convenience store companies, as well as by oil companies, are planned without the inclusion of 'gas' pumps," reports *C-Store Business* magazine. "Many retailers are depending more and more heavily on gasoline to push store sales."

Gasoline boosts traffic count and sales. NCS says 30% to 40% of its gasoline customers purchase store items—a level consistent with industry averages.

"We are always reviewing properties to see if we can add gasoline economically," says Jerry Wagner, who heads Conna Corp.'s gasoline services. Conna averaged more than 40,000 gal./month in per outlet sales.

Not only are C-store companies adding gasoline pumps, but they also are upgrading the pump facilities they already have. *C-Store Business* says 64% of the C-store companies selling gasoline which had remodeling plans last year planned on building canopies.

Five or six years ago, National Convenience Stores Inc. (NCS) offered the typical two-pump configuration. But the 1,012-store network (695 with gasoline), now features canopies covering four pumps and up to 12 hoses. NCS' ambitious expansion plans include a 450-unit hike over the next four years, and company officials say "it's rare if we take a site that doesn't have gasoline facilities.

"We're in the gasoline business, and we're going to stay in the gasoline business," says NCS' Ewens. "We have learned how to compete with oil folks."

Gasoline can make the difference as to "whether you keep a store open or not," says Jim Robinson, general manager of Shop 'N Go's gasoline division. The chain expects to sell 100-million gal. of gasoline this year. It owes about 48% of its sales to motor fuel, and at some outlets gasoline sales outpace store sales.

Learning to Run

One large independent gasoline/C-store marketer says these chains are in grade school when it comes to marketing gasoline, but the chains are quickly coming of age. In fact, store operators say gasoline marketers are somewhat elementary in their approach to inside merchandising. Some chuckle that marketers are so price-cut-happy that they slice healthy store margins and hurt their inside profit opportunities. Others observe that gasoline marketers will need to increase store size and offerings to offset slim profit margins from gasoline.

A study in the trade journal, *Convenience Store News* is telling. It says that a cross-section of oil company C-store/gasoline operations showed the average company's fuel sales accounted for 80.2% of total revenues but only 59% of total profits.

Bob Amori, formerly a 30-million-gal./year Detroit jobber, is now vice president of petroleum marketing for Li'l General Stores. Amori says gasoline mar-

Convenience Store Companies*

	Stores with Gasoline	Total Stores	Average Inside Sales per month	Average Gallonage per month
Circle K Corp.	798	1,221	$31,140	26,580
Conna Corp.	289	435	$46,620	41,610
Lil' Champ Stores	82	170	$24,840	21,660
Li'l General Stores	208	431	$33,210	17,400
Mini Mart	41	110	$21,150	17,400
Munford	481	959	$24,870	56,610
National Convenience Stores	695	1,012	$36,420	29,730
Shop & Go	286	431	$26,760	20,670
Southland Corp.	2,827	7,165	$45,960	35,550
Sunshine Jr.	322	358	$17,100	17,400

*C-store information is drawn from Roscoe's Dollars Per Day Survey, which was based on 1982 annual reports.

(c) 20-24 sites in test with Southland Corp.
(d) 220 direct-ops, 230 franchised and two Sun Marts
(e) Includes 200 salary-operated stations under secondary brands: Bi-Lo, Hi-Fy, Save More, Payless, Red Head, Solo.
(f) Excludes 418 secondary branded stations.

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May 1984

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Oil Futures
A Growing Factor in Pricing

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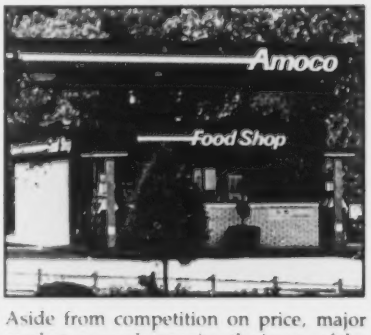
Although many still view such activity with nervous suspicion, oil marketers who aren't already doing so should pay close attention to what's going on in petroleum futures trading—a "paper market" that's begun to have an effect on real prices. **Page 36**

Cover photograph by Thomas Olson

Bob Freyberg's 5-million-gal./year Minnesota jobbership avoids the madding C-store/gasoline crowd and banks on his three service station/tire store outlets. **Page 47**



Aside from competition on price, major marketers are sharpening the image of the outlet—traditional station or C-store—to carve a retail edge. **Page 42**

• TRENDS

Merger Outcry Aids Chance Of Passing PMPA Revisions

Big oil once again is under the microscope in the nation's capital, thanks to the flurry of mergers and near mergers in recent months. The timing couldn't be better for independent marketers.

While most Washington reporters and the large majority of congressmen and senators were alternately investigating and denouncing the big oil buy-outs, an event of considerable significance to marketers went practically unnoticed. With only a small fanfare, Reps. Mike Sinar, D-Okla., and Tom Tauke, R-Iowa, introduced a bill to amend the Petroleum Marketing Practices Act. (PMPA).

The amendments aren't new. It's been months since the National Oil Jobbers Council (NOJC) and Service Station Dealers of America (SSDA) agreed on the basic changes to the PMPA and before that, various state jobber groups and brand organizations (such as the Texas Oil Marketers, Illinois Petroleum Marketers and National Association of Texaco Wholesalers) were working on similar ideas.

Prospects for passage in 1984 are slim at best. In fact, Reps. Sinar and Tauke indicated they would be happy if the appropriate House subcommittees get around to holding hearings on their legislation this year. The chance to pass the legislation will come in 1985 or 1986, the sponsors say. But what happens in the next three or four months probably will decide the fate of the PMPA amendments.

That's why lobbyists and congressional staffers working on the bill are pleased that the major oil companies are in the spotlight now. If the votes cannot be mustered to forcibly cure the industry of merger fever, frustrated lawmakers may be more willing to vote for a measure designed to limit the downstream impact of mergers. In short, if Congress can't prevent the creation of super-giant integrated oil companies, it may be able to keep the super-giants from trampling their independent competitors.

The PMPA legislation is the perfect vehicle to take advantage of that frustration. It isn't a major reform that would raise the hackles of the pro-business blocs in Congress. Instead, it is an extension of the rights of independent marketers/franchisees that's designed to fortify small businesses against the immense marketing power of a major refiner and assure that enough independent marketers remain to keep competition alive. The most drastic of the changes would curb the refiners' power to hand out "take-it-or-leave-it" contracts—precisely the kind of market abuse merger opponents cite to justify a ban on buy-outs.

Both NOJC and SSDA have been laying the groundwork for the PMPA legislation in appearances at congressional hearings on various anti-merger bills. NOJC, for example, has endorsed one House bill that would force the majors to submit future mergers to a "public interest test" before they could be approved. Such a test, says NOJC Policy Vice President Michael Scanlon, would have to include an analysis of a merger's "eventual effects of spin-off actions on franchisees and other marketer-customers."

Scanlon's remarks—made to the House Judiciary Committee—serve a double function. They support the tough merger bill the panel has before it, but also emphasize that consumers aren't the only possible "victims" of a merger. NOJC, SSDA and others, no doubt will make the point many more times while Congress is focusing on the role of the majors in the marketplace.

In Washington, there is a name for this strategy. It's called "building a record." Virtually every word uttered at a congressional hearing is recorded for posterity. Hearing transcripts along with statements and other supplementary materials play an important role in the drafting of any bill, as well as in influencing eventual votes on a pending measure.

The "game plan" for the PMPA amendments requires all of the participants to make a case for the bill in every possible forum. Even if there is only a small chance the bill can get through Congress this year, the record developed over the next few months will be extremely important. While the actual legislation will have to be reintroduced when Congress reconvenes next January, the record being built right now will be carried forward. That, the bill's sponsors hope, will speed-up the whole process next year.

The current congressional fascination with big oil may help the PMPA amendments in other ways, as well. "Merger mania" has given new momentum to the sweeping probe of the oil industry launched last year by Rep. John Dingell, D-Mich., chairman of the powerful House Energy and Commerce Committee. It may also trigger renewed interest in divorcement legislation, which might make PMPA amendments more palatable to the majors.

But most important, the majors clearly are on the defensive in Congress, a rare situation that backers of the PMPA bill can use to their advantage. *—Tom Goldsmith*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

FEBRUARY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium*
U.S. City Avg.	$1.193	$1.125	$1.209	$1.361
Regions:				
Northeast	1.218	1.152	1.218	1.374
North Central	1.213	1.159	1.235	1.412
South	1.172	1.098	1.183	1.333
West	1.175	1.096	1.196	1.358

**Effective 1/1/84, prices for leaded premium were discontinued, due to the decline in the number of outlets selling this fuel.*

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

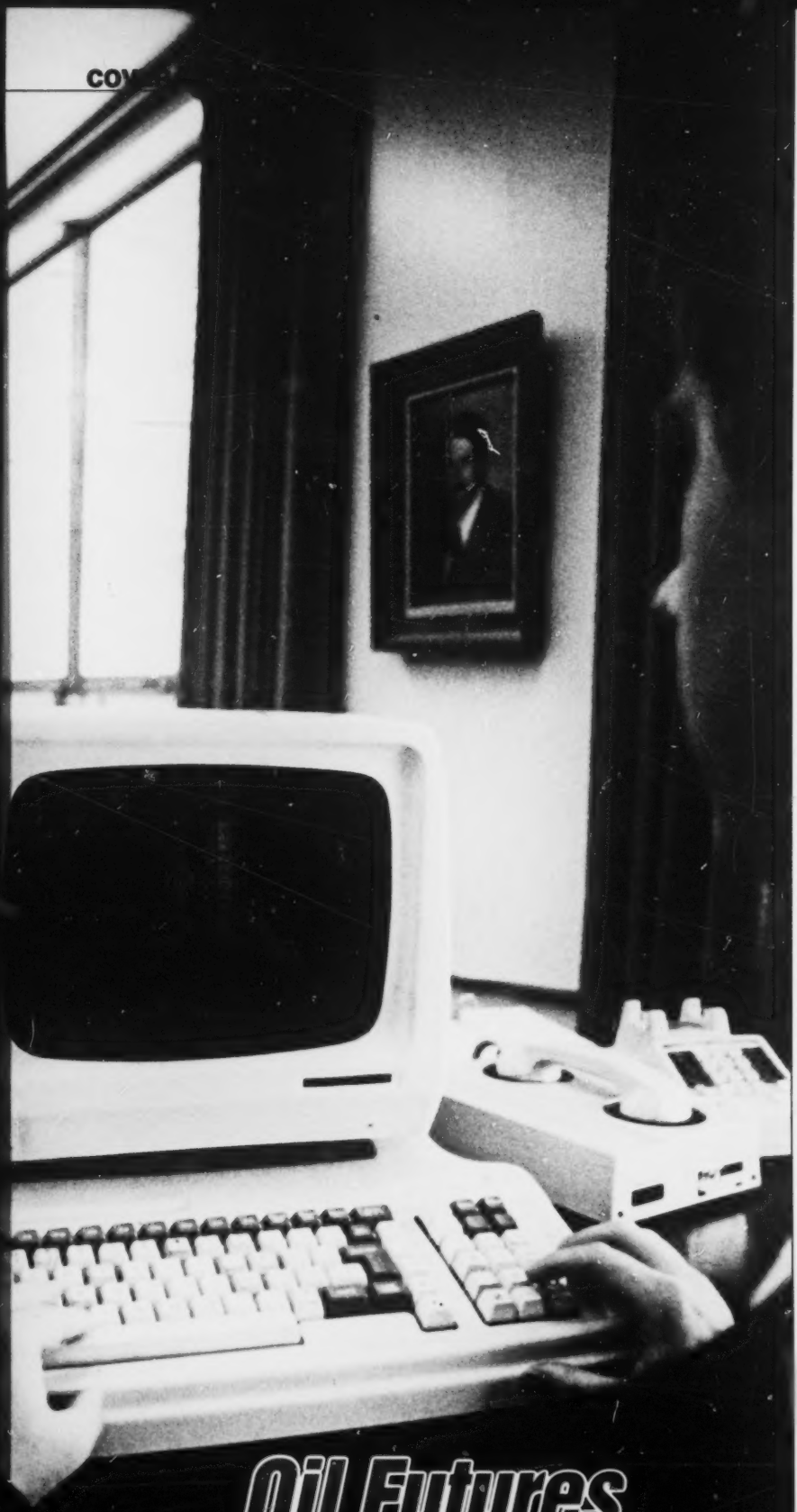
STOCKS (Add 000 bbl.)

	3/30/84	4/1/83
Gasoline (total)	245,051	233,798
Gasoline (unleaded)*	101,880	95,261
Kerosine **	34,183	36,368
Distillates	111,445	127,106
Residual	48,452	47,466

**Included in gasoline total.*

***Jet kero only.*

Source: American Petroleum Institute.



Oil Futures

A Growing Factor in Pricing

Although many still view such activity with nervous suspicion, oil marketers who aren't already doing so should, perhaps, pay close attention to what's going on in petroleum futures trading.

Increasingly, this "paper" market seems well on its way toward becoming a prime factor in what products actually sell for in the spot market and at loading racks.

Indeed, believe some experts, it is becoming *too* dominant a factor. "You now have a case of the tail wagging the dog," says a Houston-based oil pricing expert.

A futures market is a central marketplace where contracts for future delivery of commodities are traded in open auction. In theory, a buyer or seller of petroleum products such as heating oil and gasoline can protect himself ("hedge") against future price fluctuations by buying and selling such contracts.

But the whole thing is not as simple as it sounds. Experts warn that the inexperienced should become well-educated in futures trading before plunging into the actual buying and selling of contracts.

Heating oil, gasoline and crude oil futures have been trading at a brisk pace in recent months, however, and commodities exchange people predict much greater growth lies ahead.

Most oil company supply and price departments monitor trading in petroleum futures closely now, although some companies say they don't get involved in actual futures trading.

"The oil companies use the futures market to tell them what they can get at their jobber racks," believes a large jobber. "Any little rumor or panic can put the futures market into orbit. The oil companies are quick to jump on this to run up their prices."

Such critics claim speculators and others, reacting to reports which they think may affect future supply and demand conditions, can cause a fast gyration in futures prices that may not be warranted by actual market conditions.

In fact, Massachusetts officials strongly suspect energy futures hijinks by speculator trading helped precipitate 20¢ gal. jumps in East Coast heating oil prices in mid-winter. The commonwealth's report from its seven-week probe stated "price volatility" may have been caused by No. 2 oil contract trading on the New York Mercantile Exchange but stopped short of drawing any firm conclusions.

Those associated with commodity exchanges are quick to deny that speculators influence the petroleum futures market to any large degree. They insist that the majority of such trading is done by oil people who use futures as a "sophisticated tool" to hedge against future market fluctuations.

Regardless of whether outside specu-

By J. Richard Shaner
Executive Editor

lators or oil marketers dominate trading, the futures market is already a prime factor in oil's pricing rituals and it could become an even stronger one in the future.

The idea of trading futures contracts for crude oil and refined oil products has been around for at least a decade. Only within the last three years, however, have commodity exchanges succeeded in establishing a relatively high volume of trading activity. The exchanges believe there could be as much as a tenfold increase from today's level of trading before 1990.

The New York Mercantile Exchange (NYMEX) succeeded in establishing a heating oil futures market in 1978. It followed this with gasoline in 1981 and crude oil last year. The Chicago Board of Trade attempted to get heating oil and gasoline futures trading going in its trading "pits" in the early 1980s, but dropped the effort last year to concentrate on crude oil futures. The Chicago Mercantile Exchange is now trying to get gasoline and heating oil futures established. [See related story.]

NYMEX believes it now has well-established trading activity in gasoline, heating oils, and crude oil. It reports that almost 2.6-million contracts were traded on its floor last year, more than double the number two years earlier.

The commodities exchanges and brokerage firms that promote energy futures trading claim such activity brings maturity and sophistication to an industry now subject to volatile pricing moves. They claim that those trading in crude oil and its products can hedge against rapid escalations or downturns in actual market prices with futures contracts.

Advocates of futures trading say the oil industry's traditional way of buying and selling crude oil and products on contracts and in the spot market is too risky now without a backup like futures contracts.

Even some financial analysts say, however, that trading in petroleum futures has yet to attain the "maturity" and "sophistication" which some claim it offers.

One analyst likens the current futures market to a 19-year-old boy—not a juvenile by any means, big now and getting bigger, but still clearly not a man.

Another analyst argues the marketplace is yet in the incubation stage, while others say futures are proven viable.

"I think it might be useful in buying and selling crude oil," says William C. Douce, chairman of Phillips Petroleum, which so far has doubled only in crude contracts. "But when you deal in futures, you can make a bundle, or you can lose your fanny."

The Outlook

On the East Coast, NYMEX is the arena for the petroleum futures market.

Its affairs are booming, breaking records repeatedly and setting new highs. The experts anticipate the growth will continue unabated. If a tenfold increase in trading is achieved by 1990, as such experts predict, NYMEX would be handling contracts for 200-million b/d of crude oil, gasoline and heating oil. It is currently trading about 25-million b/d.

It would appear, though, that based on the activities of NYMEX alone, the petroleum futures market seems to be well established, highly visible, and presumably here to stay.

This means then that the futures markets in New York and Chicago are going to have to be monitored by all levels of

Futures Contracts: What They Are, What They Do

In simple words, a petroleum futures contract is a commitment to buy or sell a specified amount of crude oil, leaded gasoline or No. 2 heating oil on a given date.

Each contract is worth 1,000 bbl. or 42,000 U.S. gal.

The fascinating part of the futures market is that these contracts are traded back and forth in the thousands, day in and day out.

Few of them ever wind up as wet barrels, however. New York Mercantile Exchange officials say only 1% to 2% of the contracts result in actual deliveries.

Thus, the market is mostly on paper. Speculators buy and sell to turn quick profits on market moves. Industry people, particularly refiners, use the market to hedge prices and deliveries against the real world outside.

Contract terms are precise and detailed so there is no room for misinterpretation or misunderstanding.

The contracts also provide for penalties for failure or nonperformance and are rigidly enforced.

To generate more trading activity, NYMEX recently introduced what it called its "crack spread" concept.

This enables speculators—and refiners—to buy and sell contracts that keep crude oil and product volumes proportionate.

The net effect for refiners is that they can lock in their margins and profits.

The New York Mercantile Exchange trades 25-million bbl. of crude, No. 2 and gasoline daily.

Oil Futures on the New York Mercantile Exchange

Over the past three years, futures trading has grown steadily at the New York Mercantile Exchange. Here's a bird's eye view of what has happened:

Commodity	Contracts Traded 1981	1982	1983
Heating Oil	999,506	1,745,526	1,868,322
Gasoline (a)	7,300	104,082	406,483
Crude Oil (b)	—	—	323,153
Total	1,002,806	1,849,608	2,598,318

(a) Began trading 10/5/81; (b) Began trading 3/30/83.
Source: New York Mercantile Exchange.

marketing from now on, like it or not.

And, they're going to have to be reckoned with as a growing influence in the way the industry buys and sells crude oil and products, and how it establishes prices for them, short-term and long-term.

Changes Already Visible

There are some brokers and traders who say the thriving futures market in New York is already affecting prices at home and abroad—in effect, a new dimension to pricing.

This is pretty well affirmed by one petroleum broker, who explained it this way:

"It's almost impossible to make an early morning deal anymore before the market opens. Yesterday's quotations and the morning newspapers aren't enough to go by.

"And, just about everybody in the spot market takes a look at the futures line before making a commitment.

"It's not that the futures market is setting prices . . . it's kind of a discovery process that puts the whole thing on video screens all over the country. It's a benchmark activity."

Another expert was quoted as saying that any and all fluctuations on the NYMEX, or "the Merc," tables are reflected quickly in the spot market. "Some people may not like it," he said, "but what the Merc does is very important now. You have to be aware of it all the time."

A New York analyst added: "Generally, within an hour after the Merc opens, you have an 18-month panorama of prices for crude oil, gasoline and heating oil.

"Sure, they're all subject to change—perhaps hourly. But at least you have a yardstick—a projection of what prices may look like down the road made by people who are willing to bet money on it. And that's a tough combination to beat."

Dr. Arnold Safer, an economist and president of Energy Futures Group, Bethesda, Md., is even more direct in his appraisal of the NYMEX role in pricing.

In an article he prepared for a financial newspaper recently, he made this statement:

"Futures markets are revolutionizing the pricing system in the oil industry. From a slow beginning in 1978, the New York Mercantile Exchange's New York Harbor No. 2 fuel oil contract is literally setting prices for that petroleum product.

"Jobbers and resellers are increasingly reluctant to take contract oil at prices above those on the Merc, while refiners have been quick to raise prices in response to increased Merc prices.

"In fact, some sellers are offering No. 2 oil under contract prices based on the New York Merc daily average, and today these prices are the market prices for No. 2 oil."

This is the type of influence on actual

Chicago Mercantile Exchange Tries Gulf Coast Futures

The Chicago Mercantile Exchange steadfastly believes there is a vast and viable Gulf Coast-based energy futures market which will generate sufficient interest, especially among Mid-Continent oil traders and marketers, to thrive in a market paved with failures.

The Chicago Merc opened its No. 2 oil and leaded regular gasoline contracts on March 26, complete with a satellite broadcast of opening ceremonies beamed down to the San Antonio, Texas, meeting of the National Petroleum Refiners Assn. Exchange officials described first-day trading volume—802 heating oil and 445 leaded regular contracts—as encouraging enough to stay the course, while noting that sustained volume remains the key to success in launching a new energy futures contract.

"Liquidity is the key factor," Ronald J. Frost, vice president of commodity marketing, told *NPN*. "The industry wants to see what develops out there before they get involved. But frankly, I'm a little bit surprised at the amount of activity I saw out there on the floor when it opened this morning," he said.

The exchange's energy futures foray follows years of experience in agricultural and financial futures but also distressing failures by predecessors.

Although its New York Harbor-based contracts have proved viable, NYMEX was unsuccessful in floating a Gulf Coast petroleum products contract at the same time. The Chicago Board of Trade, the Chicago Merc's in-town rival, began trading a Gulf Coast unleaded contract at the end of 1982, and a Gulf Coast heating oil contract a few months later. Since then CBoT's #2 and unleaded regular contracts have sunk, and in mid-April, it was revamping its crude contract.

The Chicago Merc's Frost, however, blames CBoT's delivery mechanism for the problems, saying that the oil industry was leery of a system that produced a certificate of delivery, rather than actual wet barrels.

His exchange's contracts call for Colonial pipeline or barge delivery of product within five days of the date prescribed by the contract. Frost says the system is more "flexible and simpler" than either of its predecessors.

"Another reason we're confident of the success of these contracts is the price differential you see between the Gulf Coast and New York Harbor," says Frost. "Let's say you're a Midwest marketer, and you have a certain product inventory. You might place a futures position with the New York exchange, and then see price movements there that have little to do with the price of the fuel that comes up to you from the Gulf."

First-day Chicago Merc trading on No. 2 and leaded gasoline was 'encouraging.'

A former CBoT energy futures exec backs Frost's rationale by noting that his former employer also believed the many "smaller guys" with access to Colonial product would be anxious to support a futures exchange constructed for them. But volume and liquidity are the self-fulfilling factors.

Frost acknowledges that with the federal government seriously eyeing a phasedown or outright ban on leaded regular, there is some risk down the road for trading such a contract. But, he says, the Chicago Merc's energy advisory committee—composed of oil industry execs from Charter Oil, Tosco and even the American Independent Refiners Assn.—believed a leaded regular contract based in the Gulf Coast was "the way to go." Besides, Frost says, he doesn't think the government will suddenly abandon a product that is still viable in the marketplace.

Even if its leaded regular (or its home heating oil) contract does not succeed over time, the Chicago Merc is already armed with approval from the Commodity Futures Trading Commission to begin trading in unleaded regular gasoline contracts. And, in recognition of the brisk business on NYMEX's crude futures contract, the Chicago Merc has applied to CFTC for approval to trade that commodity, which it expects before summer.

—Thomas Olson

spot and rack prices which some oil marketers object to.

"The brokers and traders in the exchange pits will take any little rumor and try to panic futures traders," says a jobber familiar with commodities trading. "Just yesterday (late March), a rumor hit the floor that Iraq had bombed some Iran terminals. Another report had heating oil inventories falling. This caused heating oil contracts for April delivery to rise 1.13¢.

"Neither rumor took into account certain other fundamental facts. First, the Iraq-Iran rumor was false. Second, you expect heating oil stocks to start down this time of year, and we had a surplus at this time a year ago.

"The brokers don't care about actual supply-demand conditions. If a rumor can kick the market up a point or two, they tip off the speculators who want in and out fast. If they can run the market up a penny, the in-and-out speculator makes a fast buck and the broker makes about $60 per contract on the turnaround trade."

Changing Strategies

There is no question that the futures market is precipitating change in pricing tactics and strategies.

Traditionally the industry—and particularly the crude oil segment—has used an informal telephone network, newsletters and pricing services to pass the word along on the ups and downs of crude and products.

What the futures market has done is change the scenario completely.

It makes its prices impersonal, highly visible and readily available on video screens just about anyplace in the world at the press of a computer key.

It's all there in the open for anybody to see or take advantage of. It's simultaneous, too, so that everybody is looking at the same set of numbers no matter whether the locale is New York, Chicago, the West Coast or elsewhere.

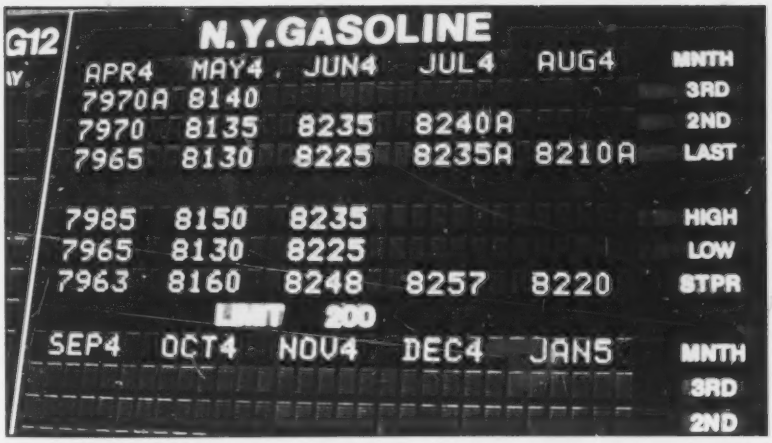
NYMEX prices are unique in the way they are established—almost classic Neanderthal in some respects.

Monday through Friday, traders meet in what are known as pits—small, stepdown recesses below the huge price board that reaches to the exchange's ceiling.

At the sound of a bell, seeming mayhem breaks loose. Buyers and sellers shout out bids and counterbids, with much waving of arms and flashing of coded signals with fingers, wrists and forearms.

Despite the madhouse aspects and the noisiness of the scene, deals are struck rather quickly. Even more surprising, despite the confusion, the deals are rapidly recorded on the computers and transferred to the screen high above the pits and to the electronic terminals all over the country.

They are buy-and-sell auctions of contracts in a goldfish bowl. Each contract is worth 1,000 bbl. of crude or product, so the numbers—in volume and dollars—can get rather heady at times.



Current futures prices are posted on the big board and on computer screens nationwide.

The activity simmers down once the morning line is established. The market looks ahead for 18 months and prices are posted for each month in that period.

Let there be a spot development in the world that could affect crude oil prices, however, and the action is reinstated and intensified in a matter of minutes.

Following recent reports that the Iran-Iraq war was heating up and distillate inventories were dropping, both heating oil futures and actual market prices rose sharply. Whether or not one triggered the other is debatable.

Nevertheless, prices rose so fast in some eastern states that federal and state investigations like Massachusetts', were initiated to see who or what was to blame. Once supplies firmed up, however, the futures market reacted as might be expected—prices dropped to what might be considered normal levels for the times.

Who's Buying and Selling?

It is hard to get a clear picture of who is doing all the trading in the futures market at the present time.

Some industry people think there are more speculators than oil interests—non-industry people who play the markets for the profits that can be made in successful gambles, just as their counterparts do in stocks and bonds.

But the NYMEX people say this isn't true at all. They say that only about 25% of the current activity is by outside speculators—the doctors, the lawyers and the other professionals who are supposed to have lots of ready cash for such purposes.

Three-fourths of the trading volume, the NYMEX people say, comes from what they describe as "commercial interests," i.e., traders, refiners, small independent producers and some substantial-sized marketers.

NYMEX chairman Michel Marks says 70% of the 50 biggest oil companies in the land are involved in futures trading. The same set of numbers is used in NYMEX publications and by others in the business.

How they arrived at them is somewhat of a mystery.

NPN Factbook data shows that the 25 top oil companies are relatively easy to count. But after 25 or so, the dropoff is precipitous. Identifying another 25 could only be a guessing game, at best.

Oil Company Players

Oil company participation also is hard to figure.

Chairman Marks, for example, says five out of seven top majors are in the market. Yet Exxon, Mobil, Texaco and Chevron have said they have not yet gotten involved.

Only a few oil companies have acknowledged that they are in the futures market. Sun is one. Others include Gulf, Ashland, Standard of Ohio, Tosco and Tenneco. No doubt there are many, but their names have not surfaced in marketplace reports.

Sun has had no qualms about its role in petroleum futures. A spokesman there has been quoted as saying that Sun has used crude futures to guarantee supply and hedge prices, and has used gasoline and heating oil futures to hedge the prices of its refined products.

"We are satisfied with the way it works," he said, "and we have every intention of sticking with it."

Watch Your Step

The futures market is not for everybody, however, even though some of the hype and hoopla from NYMEX and the brokerage houses would make it seem that way.

There is a dividing line.

NYMEX says a member must have minimum capitalization of $500,000 and a good financial rating.

But NYMEX also says that smaller companies or individuals can speculate by meeting the margin requirements ($1,000

to start) and playing it that way.

A brokerage firm representative was much tougher, however.

"Sure," he said, "just about anyone can get in if he wants to take the plunge. That's what many speculators do.

"But where small oil companies are concerned, there are limitations—at least, from my point of view. I personally think that active participation in pit trading belongs more to the super-jobber than the little guy—people with 100-million gal.a year and more.

"These people not only have the market expertise but also have the leeway and the equipment to monitor the market while it's open. Remember, futures thrive on price volatility, and if you get too far away from the scene, you can get hurt."

Indeed you can, say some marketers with experience in futures, but one adds that if you know what you are doing, trading in futures can be profitable.

"I'm dealing now with a customer who wants me to sell him diesel fuel in June but he wants a commitment on price now. I can take this business and protect myself with futures contracts.

"You've got to know what you are doing, and stay right on top of things, but you can make money in futures. This includes gasoline, although it isn't as active in futures trading as heating oil.

"Let's say gasoline futures two months from now are being quoted at 83¢. If you've done your homework on inventories and market trends, maybe you are pretty sure actual prices will hit 88¢ by then. You buy 20 contracts today at 83¢ and if you have guessed right, you'll make a 5¢ gal. profit. Then, you can take that and go out on the street and beat the tar out of somebody."

Size No Guarantee

Neither size nor all the market research in the world is any guarantee, however, of success in futures trading.

There are any number of horror stories about futures market trading, of what can happen to companies and speculators when things go bad.

One such case is that of an upstate New York marketer, a pretty knowledgeable 100-million-gal.-a-year distributor.

This firm got into the futures market and added a specialist to the staff to handle the trading activities. How it got itself in the mess it did has never been discussed publicly. But the company almost went down the tube as a result.

It took a bath for several million dollars, was forced into a major retrenchment of manpower and equipment, and ultimately into Chapter 11 bankruptcy proceedings to save the day. It's still struggling to get itself turned around, informed sources say.

Another company that got squeezed was much, much bigger—Apex oil Co. of St. Louis. Apex, a broker and terminal operator, got caught in a demand for wet barrel deliveries in New York harbor to fulfill commitments.

NYMEX Chairman Michel Marks says many majors are involved in futures trading.

Industry sources said it cost Apex in excess of $10-million to make good. Afterwards, Apex filed suit in federal court alleging that it had been victimized by several brokerage firms and oil companies. The case is still pending.

There are success stories too. There are any number of companies which have hedged and traded and made out very well.

One 75-million-gal./year fuel oil and gasoline marketer in Chicago, for instance, says he weathered the notorious and unexpectedly balmy '82-'83 heating season quite well—thanks to his hedging on the futures market—while his competitors lost their shirts.

But like the winners of Saturday night poker games, few of them want to talk about it or their "winnings."

Trading History

Futures markets are not unique in the business world. Commodity exchanges have been trading in futures for a century or more—in grains, metals, vegetables and livestock, to name a few.

Petroleum futures is a new development, however.

NYMEX made an attempt to establish a petroleum futures market in the early 1970s. But it didn't take.

"Neither the marketplace nor the industry were ready for it," said chairman Marks.

"We decided to give it another whirl in 1978, not long after I was elected to my first term as chairman.

"The heating oil futures were inaugurated in 1978, the gasoline futures in 1981 and the crude oil futures on March 30, 1983.

"Crude oil futures were the shot in the arm the exchange really needed."

Marks noted that the market thrives on price volatility. "That's the key," he said. "Take away that element and there could be a question as to the need for a futures market.

"For example, if price controls should ever come back, they could shoot the bottom out of the market.

"There'd be no risk factor, no volatility, no money to be made, no hedges to guard against future developments.

"Drastic changes in politics also could affect the operations of a future marketplace." But Marks see none of this happening.

"Some of the fluctuations of the market may dominate for a while," he said. "But ultimately, supply and demand will dictate what's going to happen.

"The ultimate test of the market is the convergence of the cash prices and the futures price," he said.

Marks is a young man, only 34, as a matter of fact. He's now in his fourth two-year term as chairman and most of the futures market activities have taken place during his stewardship.

Isn't it unusual for such a young man to be chairman of such an old institution?

Marks laughed. "The man I succeeded was in his seventies. But when I came in, the exchange was looking for some action. And that's what we tried to build in.

"When I first started, most of the trading here was in potatoes and platinum. Now there's very little potatoes and not much platinum. But an awful lot of oil."

NYMEX figures show that the petroleum complex dominated all trading in 1983 for the third consecutive year. Of the 3,926,589 contracts of all sorts that were traded on the exchange last year, almost two-thirds of them were petroleum.

"When I became chairman of the Merc," Marks commented with a grin, "we had about 100 members, little credibility, and seats were worth about $5,000. Today we have 800 members and only recently a seat commanded a price of $85,000.

"That tells an awful lot of what has happened at the Merc in recent years and mostly as a result of petroleum futures."

Marks has a brokerage firm of his own. He has been spending half to two-thirds of his time in handling exchange activities, however. He still has about a year to go to complete his fourth term. He's not sure whether he wants another. "On the other hand," he said impishly, "maybe they won't want me either. Then I can go back to full-time trading and have some fun out there myself again." NPN

TBA Briefs

Lower '83 Fuel Prices Helped Dampen Cost of Operating Automobiles

The average per-mile cost of operating a typical new compact car in 20 of the nation's largest cities last year fell 1.4% to 46.53¢ per mile, according to an annual study by Hertz Corp.

The decline in the big-city average is lower than the 3.1% or 1.39¢ mile drop in the overall U.S. 1983 average reported in January.

Hertz says the decline was due in part to lower car loan interest rates and less expensive gasoline, which offset a 3.3% increase in vehicle purchase prices and higher sales taxes, license fees and insurance premiums.

Purchase prices for new compacts ranged from a low of $8,225 in Detroit to $8,561 in New York City.

Los Angeles continued to top the list of per-mile cost with an average of 56.86¢. Atlanta is least expensive with average per-mile costs of 41.59¢.

Other figures released by Hertz show that automobile size has a direct bearing on per-mile cost. Subcompacts bought new and driven 10,000 miles per year cost 37.23¢ per mile to operate. Mid-sized cars cost an average of 48.87¢ per mile, intermediates cost 52.28¢ and standard-sized vehicles 59.58¢ per mile.

		1983	1982	
1	Los Angeles	56.86¢	57.08¢	1
2	San Francisco	54.61	54.33	3
3	New York City	54.50	56.05	2
4	Miami	50.03	50.04	4
5	Chicago	49.46	49.81	5
6	Denver	47.74	46.98	8
7	St. Louis	47.53	47.61	7
8	Seattle	47.06	47.91	6
9	San Diego	45.34	46.39	9
10	Boston	45.34	46.33	10
11	Minneapolis	44.99	45.58	13
12	Milwaukee	44.23	45.60	12
13	Houston	44.09	45.62	11
14	Pittsburgh	43.56	44.75	15
15	Detroit	43.44	41.68	20
16	Cleveland	43.21	45.36	14
17	Cincinnati	42.68	43.63	17
18	Dallas	42.27	43.11	18
19	Dist. of Col.	42.11	43.73	16
20	Atlanta	41.59	42.15	19
20-CITY AVERAGE		46.53	47.21	
NATIONAL AVERAGE		43.28	44.67	

Source: Hertz Corp.

General Tire Rolls Out New Name and New Card

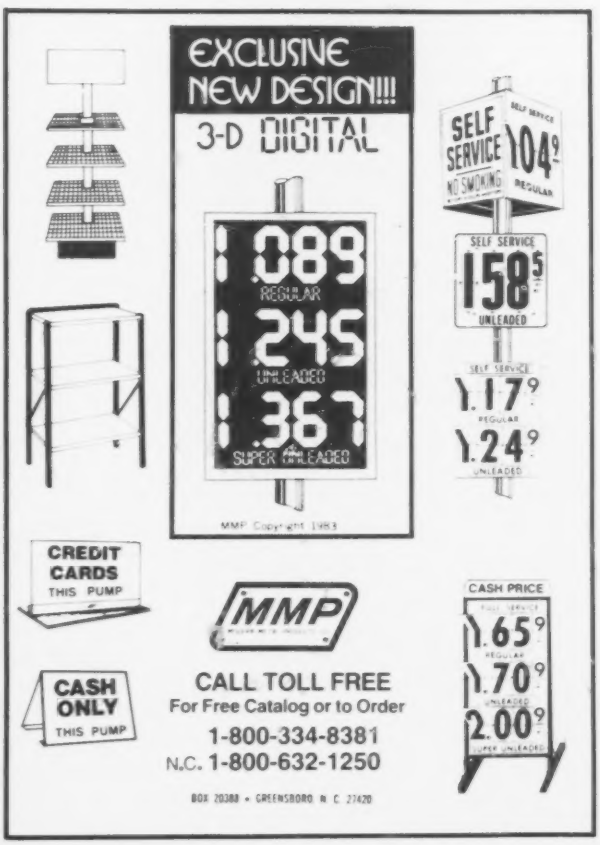
Fresh on the heels of changing its name from General Tire and Rubber Co., GenCorp early last month awaited results of its new GenCard credit card program.

The card's introduction, according to Troy Kegans, vice president of replacement sales for GenCorp's General subsidiary, came just in time for "the high-volume spring sales season."

A company spokesman declined to reveal the number of GenCorp cardholders, but says that the company's present credit card would be phased out over the next year.

GenCard was test marketed in Midwest and Southwest outlets for three months before it was implemented at all General Tire dealers.

The company says it will administer the entire credit card program, including credit approval, billing, collection and assumption of all bad debt expense. Participating dealers will be charged fees ranging from 3.5% to 5%, depending on purchase amounts. **NPN**



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